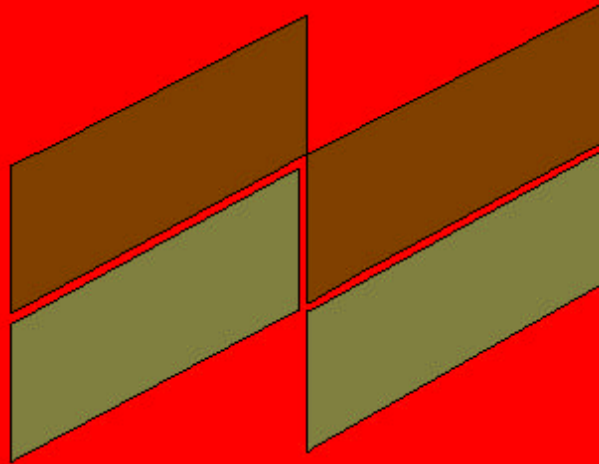


Manila Mining Corporation



*2006
Annual Report*

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CORPORATE DIRECTORY

ANNUAL MEETING:

The Annual Meeting of Stockholders of Manila Mining Corporation will be held on Tuesday April 17, 2007, Tuesday, at 3:00 p.m. at the Renaissance Makati City Hotel (formerly New World Renaissance Hotel), Ballrooms 1 & 2, Makati Avenue cor Esperanza Street, Makati City.

MESSAGE FROM THE CHAIRMAN



We welcome 2007 in a celebratory mood for two reasons: The first is that we have finally obtained the release of our renewed Exploration Permit (EP) on January 29, 2007. A portion of the EP shall be assigned to our 100%-owned subsidiary, Kalayaan Copper-Gold Resources, Inc.

The second reason is of course the signing of a Letter of Intent with Anglo-American for the exploration and potential development of the Kalayaan Property on November 9, 2006. As expected, we signed with Anglo American, through its wholly-owned subsidiary, Anglo Investments BV, a Farm-In Agreement on March 26, 2007, providing for the funding by Anglo of the pre-feasibility phase, costing US\$20 million, to earn equity in Kalayaan Copper-Gold Resources, Inc. If warranted, Anglo will proceed to solely fund the final feasibility phase, costing another US\$15 to 20 million, of the Kalayaan project, for additional equity. As its initial entry cost into the project, Anglo has remitted US\$7 million to MMC which shall be deemed as payment to MMC upon Anglo's commencement of the program in Kalayaan. We are close to concluding the negotiations for the rest of the definitive agreements for the joint venture with Anglo.

The Board of Directors saw the critical need to address some of the company's long standing financial obligations and therefore decided to raise capital through an offer of 1:2 stock rights (SRO). The SRO was oversubscribed and raised a total of P895 million. We were able to pay our major creditors and suppliers. We are continuing to settle accounts with suppliers to clean up our balance sheet; already as of year-end 2006, our balance sheet shows a substantial reduction in Accounts Payable and Accrued Expenses, Borrowings and Non-trade payables. P200 million of the SRO proceeds was allotted for an exploration program for MMC properties outside the Kalayaan, which MMC commenced early this year. Confident of the results of this exploration program, we hope to reopen the mine possibly within a period of two years.

Mr. Lyndon Bradish retired from the Board and was replaced by Atty. Jose G. Cervantes. We are grateful to Mr. Bradish for his many contributions as President from 2004 to 2005 and as Director for four years. As we welcome Sycip, Gorres, Velayo & Co., we also wish to thank Isla Lipana & Co. for their quality service for many, many years.

On behalf of the Board of Directors, let me close this short message by expressing our sincere appreciation and thanks to our faithful employees, shareholders and suppliers for their steadfast support of our various short and long-term plans geared towards getting the company to resume operation.



FELIPE U. YAP
Chairman and CEO

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS



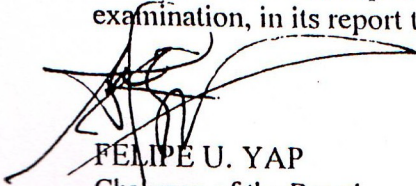
Manila Mining Corporation

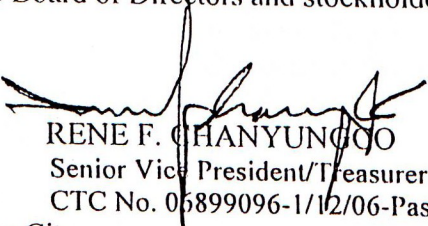
The management of **Manila Mining Corporation** is responsible for all information and representations contained in the financial statements for the years ended **December 31, 2006, 2005 and 2004**. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

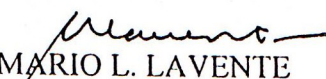
In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weakness in the internal controls; and (iii) any fraud that involves management or other employees who have significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

Sycip, Gorres, Velayo & Co., the independent auditors appointed by the Board, has examined the financial statements of the company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

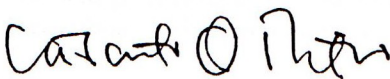

FELIPE U. YAP
Chairman of the Board
and Chief Executive Officer
CTC No. 20199227-1/5/07-Davao City


RENE F. CHANYUNGO
Senior Vice President/Treasurer
CTC No. 05899096-1/12/06-Pasig


MARIO L. LAVENTE
Financial Controller
CTC No. 42159757-
2/19/07-Q.C.

SUBSCRIBED AND SWORN to before me this 20th day of March 2007 at Makati City.

Doc. No. 374:
Page No. 72:
Book No. 71:
Series of 2007


CRISANTO O. MARTINEZ
Notary Public Until Dec. 31, 2008
PTR No. 0267657/Jan. 2, 2007
IBP No. 690486/Nov. 14, 2006/Manila

INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors
Manila Mining Corporation
20th Floor, Lepanto Building
8747 Paseo de Roxas, 1226 Makati City

We have audited the accompanying financial statements of Manila Mining Corporation (the Company), which comprise the balance sheet as of December 31, 2006, and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The balance sheet of the Company as of December 31, 2005, and the statements of income, statements of changes in equity and statements of cash flows for the years ended December 31, 2005 and 2004 were audited by other auditors whose report dated March 20, 2006, expressed an unqualified opinion with emphasis on the going concern status of the Company. The opinion of such auditors, however, does not cover the restatement of those financial statements as discussed in Note 21 to the financial statements. As discussed in Note 1 to the financial statements, current developments has occurred in the Company that mitigated its going concern uncertainty.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

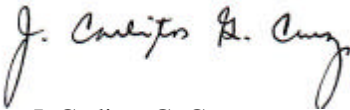
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Manila Mining Corporation as of December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



J. Carlitos G. Cruz
Partner
CPA Certificate No. 49053
SEC Accreditation No. 0072-AR-1
Tax Identification No. 102-084-648
PTR No. 0266538, January 2, 2007, Makati City

March 19, 2007

MANILA MINING CORPORATION**BALANCE SHEET****DECEMBER 31, 2006****(With Comparative Figures for 2005)**

	2006	2005 (As restated; see Note 21)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	₱118,350,302	₱463,092
Receivables - net (Note 4)	6,021,808	1,988,345
Inventories - net (Note 5)	40,374,355	44,549,175
Prepayments and other current assets (Note 6)	41,098,751	12,796,052
Total Current Assets	205,845,216	59,796,664
Noncurrent Assets		
Available-for-sale (AFS) investments	7,875,000	7,875,000
Property, plant and equipment - net (Note 7)	1,454,749,270	1,530,242,044
Other noncurrent assets (Note 8)	6,641,102	17,661,150
Total Noncurrent Assets	1,469,265,372	1,555,778,194
TOTAL ASSETS	₱1,675,110,588	₱1,615,574,858
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 9)	₱278,593,422	₱566,697,136
Unclaimed dividends	573,097	573,179
Borrowings (Note 10)	-	193,439,896
Nontrade payable	-	28,154,759
Total Current Liabilities	279,166,519	788,864,970
Noncurrent Liabilities		
Nontrade Payable (Note 12)	315,966,684	504,910,669
Retirement benefit obligation (Note 11)	4,161,588	3,681,188
Deferred income tax liability - net (Note 15)	106,377,534	125,227,852
Total Noncurrent liabilities	426,505,806	633,819,709
Equity		
Capital stock (Note 16)	1,789,938,502	1,193,231,314
Additional paid-in capital	296,768,818	4,230,174
Cumulative changes in fair value of AFS		
Investments	375,000	375,000
Deficit (Note 21)	(1,117,644,057)	(1,004,946,309)
Total Equity	969,438,263	192,890,179
TOTAL LIABILITIES AND EQUITY	₱1,675,110,588	₱1,615,574,858

See accompanying Notes to Financial Statements.

MANILA MINING CORPORATION**STATEMENT OF INCOME****FOR THE YEAR ENDED DECEMBER 31, 2006****(With Comparative Figures for 2005 and 2004)**

	2006	2005 (As restated; Note 21)	2004 (As restated; Note 21)
OTHER OPERATING INCOME	₱-	₱375,000	₱-
ADMINISTRATION AND OVERHEAD (Note 13)	108,644,593	133,778,690	102,131,746
FINANCE COSTS - net (Note 14)	22,903,473	20,755,409	24,890,531
LOSS BEFORE INCOME TAX	131,548,066	154,159,099	127,022,277
BENEFIT FROM DEFERRED INCOME TAX (Note 15)	(18,850,318)	(6,741,565)	(148,710)
NET LOSS	₱112,697,748	₱147,417,534	₱126,873,567
LOSS PER SHARE Basic and diluted (Note 18)	₱0.00084	₱0.00124	₱0.00106

See accompanying Notes to Financial Statements

MANILA MINING CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006
(With Comparative Figures for 2005 and 2004)
(Amounts in Thousands)

	2006	2005 (As restated; Note 27)	2004 (As restated; Note 27)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	(P131,548)	(P154,159)	(P127,022)
Adjustments for:			
Depletion, depreciation and amortization (Note 7)	47,397	59,295	82,940
Retirement benefit costs (Note 11)	480	432	465
Provision for impairment losses on:			
Property, plant and equipment	40,784	45,047	–
Inventories	3,370	9,132	–
Other assets	9,224	–	–
Unrealized foreign exchange losses (gains) – net	9	7	(59)
Interest income (Note 14)	(1,338)	(7)	(11)
Operating loss before working capital changes	(31,622)	(40,253)	(43,687)
Decrease (increase) in:			
Receivables	(4,033)	(95)	8,040
Inventories	805	915	19,021
Prepayments and other current assets	(28,303)	(397)	5,737
Increase (decrease) in trade payable and accrued expenses	(288,104)	21,589	11,601
Cash generated from operations	(351,257)	(18,241)	712
Interest received	1,338	7	11
Net cash provided by (used in) operating activities	(349,919)	(18,234)	723
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment (Note 7)	(8,430)	(35)	–
Decrease (increase) of other assets	(2,462)	2,957	157
Net cash provided by (used in) investing activities	(10,892)	2,922	157
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares	889,246	–	–
Payments of borrowings (Note 10)	(193,440)	–	(12,868)
Payment to related parties	(217,099)	15,115	11738
Net cash provided by (used in) financing activities	478,707	15,115	(1,130)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	(9)	(7)	59
NET INCREASE (DECREASE) IN CASH	117,887	(204)	(191)
CASH AT THE BEGINNING OF THE YEAR	463	667	858
CASH AT THE END OF THE YEAR (Note 3)	P118,350	P463	P667

See accompanying Notes to Financial Statements

MANILA MINING CORPORATION

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006
(With Comparative Figures for 2005 and 2004)**

	Capital Stock (Note 16) Issued	Subscribed (net of subscriptions receivable)	Additional Paid-in Capital	Cumulative Changes in Fair Values of AFS Investments	Deficit (Note 21)	Total
Balances at January 1, 2004, as previously reported	₱1,193,160,189	₱71,125	₱4,230,174	₱–	(₱648,252,964)	₱549,208,524
Prior period adjustments (Note 21)	–	–	–	–	(82,402,244)	(82,402,244)
Balances at January 1, 2004, as restated	1,193,160,189	71,125	4,230,174	–	(730,655,208)	466,806,280
Net loss for the year, as restated	–	–	–	–	(126,873,567)	(126,873,567)
Balances at December 31, 2004, as restated	₱1,193,160,189	₱71,125	₱4,230,174	₱–	(₱857,528,775)	₱339,932,713
Balances at January 1, 2005, as previously reported	₱1,193,160,189	₱71,125	₱4,230,174	₱750,000	(₱782,126,077)	₱416,085,411
Prior period adjustments (Note 21)	–	–	–	–	(75,402,698)	(75,402,698)
Balances at January 1, 2005, as restated	1,193,160,189	71,125	4,230,174	–	(857,528,775)	340,682,713
Effects of adoption of PAS 32 and PAS 39	–	–	–	(375,000)	–	(375,000)
Balances at January 1, 2005, as adjusted	1,193,160,189	71,125	4,230,174	375,000	(857,528,775)	340,307,713
Net loss for the year, as restated	–	–	–	–	(147,417,534)	(147,417,534)
Balances at December 31, 2005, as restated	₱1,193,160,189	₱71,125	₱4,230,174	₱375,000	(₱1,004,946,309)	₱192,890,179

(Forward)

	Capital Stock (Note 16)		Additional	Cumulative	Deficit	Total
	Issued	Subscribed	Paid-in Capital	Changes in Fair Values of AFS Investments	(Note 21)	
Balances at January 1, 2006, as previously reported	₱1,193,160,189	₱71,125	₱4,230,174	₱375,000	(₱936,543,157)	₱261,293,331
Prior period adjustments (Note 21)	–	–	–	–	(68,403,152)	(68,403,152)
Balances at January 1, 2005, as restated	1,193,160,189	71,125	4,230,174	375,000	(1,004,946,309)	192,890,179
Issuance/subscription of shares during the year	587,831,567	8,875,621	292,538,644	–	–	889,245,832
Net loss for the year	–	–	–	–	(112,697,748)	(112,697,748)
Balances at December 31, 2006	₱1,780,991,756	₱8,946,746	₱296,768,818	₱375,000	(₱1,117,644,057)	₱969,438,263

See accompanying Notes to Financial Statements.

MANILA MINING CORPORATION

NOTES TO FINANCIAL STATEMENTS

(With Comparative Figures for 2005 and 2004)

1. General Information and Status of Operation

Manila Mining Corporation (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on May 20, 1949 primarily to carry on the business of mining, milling, concentrating, converting, smelting, treating, preparing for market, manufacturing, buying, selling, exchanging and otherwise producing and dealing in precious and semi-precious metals, ores, minerals and their by-products. The Company's shares are listed and traded in the Philippine Stock Exchange (PSE). On April 16, 1999, the SEC approved the extension of the Company's corporate term for another 50 years upon expiration of its original term on May 30, 1999. Lepanto Consolidated Mining Company (LCMC), a publicly listed Company, has 20.15% equity interest in the Company.

The principal office of the Company is located at the 20th Floor Lepanto Building, Paseo de Roxas, Makati City.

The Company's mining operations remain suspended since shutdown in 2001. Currently, the Company is initiating mining activities through an exploration program adopted during the last quarter of 2006.

On May 22, 1996, the Company's Board of Directors (BOD) approved the expansion of its current mill capacity from 8,000 tonnes per day (TPD) to 10,000 TPD, designed to consolidate the installation of the second Semi-Autogenous Grinding (SAG) mill unit with the original 48-inch pit conveyor project. The expansion was registered with the Board of Investments (BOI) under E.O. No. 226 on October 6, 1996.

On November 5, 1997, the BOI approved the Company's application for registration of its copper flotation project under E.O. No. 226 on a non-pioneer status. On June 9, 2000, the BOI likewise approved the Company's application for the modernization program of the copper flotation project under a preferred non-pioneer status. As a registered enterprise, the Company is entitled to certain incentives and tax benefits which include, among others, income tax holiday for a period of four years from February 23, 1998 the actual start of commercial operations.

On November 30, 2000, the Company's gold mining and milling operations were temporarily shutdown due to the landslide that occurred in one of its open pits.

On December 20, 2000, the Company temporarily shut down its milling operations pending its receipt of a permit to further raise its tailing pond.

On January 29, 2001, after obtaining the necessary permit to increase the height of the tailing pond to the 65 meter limit set by the Department of Environment and Natural Resources (DENR), the Company resumed its milling operations.

On July 26, 2001, the Company's BOD, in its meeting on July 26, 2001, resolved to shutdown the Company's mining operations due to the expiration of its temporary authority to construct and operate its tailings dam issued by the DENR. As a consequence, the Company implemented a selective employee retrenchment program in order to minimize its losses. Operations of the Company were concentrated to exploration works in order to enhance its existing ore reserves which are deemed critical in sustaining continuous and profitable operations. Furthermore, the Company's prospects during this period were affected by the general slow down in the economy and the volatile price of copper. Also, the Company did not meet its maturing debt obligations and certain financial ratios required in its loan agreements (see Note 10). These matters raise significant uncertainties as to the Company's ability to continue as a going concern and recover its mine and mining properties. In view of the suspension of the Company's mining operations, the registration of the Company's copper flotation project was cancelled by the BOI on August 23, 2005.

The financial statements as of December 31, 2005 and 2004 have been prepared assuming that the Company will continue as a going concern. The Company incurred net losses of ₱112,697,748, ₱147,417,534 and ₱126,873,567 for the years ended December 31, 2006, 2005 and 2004 and has a deficit of ₱1,004,946,309 and ₱857,528,775 as of December 31, 2005 and 2004, respectively.

The Company's mining operations remain suspended since shutdown in 2001. However, several companies have expressed interest in the area that lies between the Kalaya-an district at the extreme southwest end of the Company's tenement holdings and immediately north of the Anglo-American/Philex Boyongan discovery and the historical operations. This area has been named the "Corridor" as it covers important geology and structures that connect two significantly mineralized areas.

The investment and mining climate has improved significantly over the past several months as a result of the 2004 Supreme Court ruling upholding the validity of the Philippine Mining Act of 1995 and the escalating copper and gold commodity prices. The Company holds excellent properties and should be able to realize significant benefits over the long term. The Company's Kalaya-an project is among the mineral exploration projects under the Ten Point Legacy of the President of the Philippines for year 2004 - 2010.

In 2006, the Company made a pre-emptive rights offering of shares with a par value of ₱0.010 per share at an exercise price of ₱0.015 per share. Such rights offer shareholders the right to subscribe to one share for two shares held as of record date of August 30, 2006. Total capital stock issued and subscribed from the stock rights offering amounted to ₱889,245,832 (net of related costs).

Proceeds from the issuance of stock rights were used to settle debts and fund exploration projects. Exploration drilling activities started in 2007.

On November 9, 2006, the Company and Anglo American Exploration (Philippines), Inc. ("AMEXP"), a wholly-owned subsidiary of Anglo-American Plc., signed a Letter of Intent which, subject to finalizing definitive agreements, confirms the participation of AMEXP in the exploration and potential development of the Kalaya-an Property which is part of the contract area of the Exploration Permit of MMC then pending renewal with the DENR.

The Exploration Permit renewal was granted by the DENR on January 29, 2007 for a term of two years from issuance covering an area of 2,462.915 hectares, of which one parcel consisting of 286.63 hectares, would be subject of the joint venture between MMC and Anglo-American Plc.

As of December 31, 2005, the Company's ability to continue as a going concern and recover its mine and mining properties is dependent upon the successful completion of the restructuring negotiations with the creditor banks, the ability to obtain the necessary financing, the conduct of successful exploration/drilling work and ability to achieve profitable operations. The ultimate outcome of these uncertainties cannot presently be determined.

The accompanying financial statements do not include any adjustments relating to the recoverability and classifications of the Company's recorded asset amounts and classification of liabilities that might result from the outcome of these uncertainties. The current developments in 2006 as described in the preceding paragraph mitigated the going concern uncertainty in 2005 and 2004.

The accompanying financial statements as of December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004 were authorized for issue by the Board of Directors (BOD) on March 19, 2007.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared under the historical cost basis except for the AFS investments that have been measured at fair value. The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency.

Basis of Compliance

The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Adoption of New and Revised Accounting Standards

The accounting policies adopted are consistent with those of the previous financial years except for the adoption of the following new and amended standards and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC):

- Amendments to Philippine Accounting Standards (PAS) 19, *Employee Benefits*;
- Amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*;
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement*, (a) *Amendment for financial guarantee contracts*; (b) *Amendment for hedges of forecast intragroup transactions*; and (c) *Amendment for the fair value option*;
- PFRS 6, *Exploration for and Evaluation of Mineral Resources*;
- Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*;

- Philippine Interpretation IFRIC 5, *Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*; and
- Philippine Interpretation IFRIC 6, *Liabilities Arising from Participating in a Specific Market*.

Among the new and amended standards and interpretations, only the following have an impact in the Company's financial statements:

- Amendments to PAS 19, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*, which introduces an additional option for recognition of actuarial gains and losses in post-employment defined benefit plans. The amendment permits an entity to recognize actuarial gains and losses in the period in which they occur outside profit or loss. The amendment also requires additional disclosures on the entity's pension plan. The adoption of amendments to PAS 19 does not have an effect on the Company's results of operations and financial position. The Company elected to continue to recognize a portion of actuarial gains and losses in profit and loss if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of the defined obligation or 10% of the fair value of plan assets. Additional disclosures required by the amendments were included in the Company's financial statements, where applicable (see Note 11).
- PFRS 6, *Exploration for and Evaluation of Mineral Resources*; permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of PAS 8. Thus, under PFRS 6, an entity may continue to use the accounting policies applied immediately before adopting PFRS 6. This includes continuing to use recognition and measurement practices that are part of those accounting policies. It also requires entities recognizing exploration and evaluation assets to perform an impairment test on those assets when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amounts. It varies with the recognition of impairment from that in PAS 36 but measures the impairment in accordance with the standard once the impairment is identified. Adoption of this standard did not have a significant impact on the Company's financial statements.

The Company did not early adopt the following standards and interpretations:

Effective on January 1, 2007:

- PFRS 7, *Financial Instruments: Disclosures*
PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS.

- Amendments to PAS 1, *Presentation of Financial Statements*
The amendments to PAS 1 introduce disclosures about the level of an entity's capital and how it manages capital.
- Philippine Interpretation IFRIC 8, *Scope of PFRS 2 - Group and Treasury Shares Transactions*
This Interpretation becomes effective for financial years beginning on or after May 1, 2006. This Interpretation requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
This Interpretation was issued in March 2006 and becomes effective for financial years beginning on or after June 1, 2006. This Interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*
This Interpretation, which becomes effective for financial years beginning on or after November 1, 2006, provides that the frequency of financial reporting does affect the amount of impairment charge to be recognized in the annual financial reporting with respect to goodwill and AFS investments. It prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date.

Effective on January 1, 2008:

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*
This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g. treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent.
- Philippine Interpretation IFRIC 12, *Service Concession Arrangement*
This Interpretation covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remain in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure.

Effective on January 1, 2009:

- *PFRS 8, Operating Segments*
PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheet and statement of income and companies will need to provide explanations and reconciliations of the differences.

Among the standards that were not early adopted, only the following may have an impact in the Company's financial statements:

- *PFRS 7, Financial Instruments: Disclosures*, which provides revised disclosure requirements on financial instruments.
- Amendments to PAS 1, *Presentation of Financial Statements: Capital Disclosures*, which require the following additional disclosures: (a) an entity's objectives, policies and processes for managing capital; (b) quantitative data about what the entity regards as capital; (c) whether the entity has complied with any capital requirements; and (d) if it has not complied, the consequences of such non-compliance.

The revised and additional disclosures provided by the standards will be included in the Company's financial statements when these are adopted in 2007.

Significant Judgments and Estimates

The Company's financial statements prepared in compliance with PFRSs, require management to make estimates and assumptions that affect amounts reported in the financial statements and related notes. The estimates and assumptions used in the Company's financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Company's financial statements. Actual results could differ from such estimates.

Judgments

Determining Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates.

Estimates

Estimating Allowances for Impairment Losses on Receivables

The provision for impairment losses on receivables is based on the Company's assessment of the collectibility of payments from customers, employees and other third parties. This assessment requires judgment regarding the outcome of disputes and the ability of each of the debtors to pay the amounts owed to the Company.

In addition to specific allowance against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Company's assessment of the accounts since their inception. These Company assessments take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

There is no recognized provision for impairment losses on receivables for the years ended December 31, 2006, 2005 and 2004. Receivables, net of allowance for impairment losses, amounted to ₱6,021,808 and ₱1,988,345 as of December 31, 2006 and 2005, respectively (see Note 4).

Estimating Allowances for Inventory Obsolescence

Inventories of parts and supplies, which are used in the Company's operations, are stated at the lower of cost or net realizable value. Allowance due to obsolescence is established when there is evidence that the equipment where the parts and supplies were originally purchased were no longer in service. Materials which are nonmoving or have become unusable are priced at their recoverable amount.

Provision for inventory obsolescence amounting to ₱3,369,834 and ₱9,131,927 was recognized in 2006 and 2005, respectively. There was no provision for inventory obsolescence in 2004. Inventories, at lower of cost or net realizable value, amounted to ₱40,374,355 and ₱44,549,175 as of December 31, 2006 and 2005, respectively (see Note 5).

Estimating Useful Lives of Property, Plant and Equipment

Estimated useful lives of the property, plant and equipment are determined based on the assessment by the end user and the parameters of usage indicated in the Company's manual. The Company estimates the useful lives of property, plant and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property, plant and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

As of December 31, 2006 and 2005, the net book value of the property, plant and equipment amounted to ₱1,454,749,270 and ₱1,530,242,044, respectively (see Note 7).

Estimating Impairment Losses on Property, Plant and Equipment and Other Noncurrent Assets

The Company assesses impairment on property, plant and equipment and other noncurrent assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;

- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the financial statements.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. The aggregate net book values of property, plant and equipment, and other noncurrent assets amounted to ₱1,461,390,372 and ₱1,547,903,194 as of December 31, 2006 and 2005 respectively (Notes 7 and 8).

An impairment loss is recognized and charged to earnings if the discounted expected future cash flows are less than the carrying amount. Fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the risk-free rate of interest for a term consistent with the period of expected cash flows.

Estimating Mineral Reserves and Resources

Mineral reserves and resources estimates for development projects are, to a large extent, based on the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies which derive estimates of costs based upon anticipated tonnage and grades of ores to be mined and processed, the configuration of the ore body, expected recovery rates from the ore, estimated operating costs, estimated climatic conditions and other factors. Proven reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and extraction and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors including product prices, contract terms or development plans.

Estimates of reserves for undeveloped or partially developed areas are subject to greater uncertainty over their future life than estimates of reserves for areas that are substantially developed and depleted. As an area goes into production, the amount of proven reserves will be subject to future revision once additional information becomes available. As those areas are further developed, new information may lead to revisions.

Estimating Realizability of Deferred Income Tax Assets

The Company reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Company will generate sufficient taxable profit to allow all or part of its deferred income tax assets to be utilized.

The Company has recognized deferred income tax asset amounting to ₱45,132,246, and ₱26,281,928 as of December 31, 2006 and 2005, respectively. Unrecognized deferred income tax assets for the Company's net operating loss carryover (NOLCO) amounted to ₱107,603,633 and ₱162,333,022 as of December 31, 2006 and 2005, respectively (see Note 15).

Retirement Benefit Expense

The determination of the Company's obligation and cost for retirement and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts.

Retirement benefit expense amounted to ₱480,400, ₱432,025 and ₱464,720 in 2006, 2005 and 2004, respectively (Note 11). Retirement benefit obligation amounted to ₱4,161,588 and ₱3,681,188 as of December 31, 2006 and 2005, respectively (Note 11).

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from date of placement and that are subject to an insignificant risk of changes in value.

Financial Instruments

Financial instruments are recognized in the balance sheet when the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. Financial assets under PAS 39 are classified as either financial assets at FVPL, loans and receivables, held to maturity investments and available-for-sale (AFS) investments. The Company's financial assets are of the nature of loans and receivables and AFS investments. Also under PAS 39, financial liabilities are classified as FVPL or other financial liabilities. The Company's financial liabilities are of the nature of other financial liabilities.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as AFS investments or designated at FVPL. This accounting policy relates to the balance sheet caption 'Receivables', which arise primarily from sale and other types of receivables.

Receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included in 'Finance Cost' caption in the statement of income. The losses arising from impairment of receivables are recognized in the

statement of income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectibility of accounts (see accounting policy on Impairment of Financial Assets).

AFS investments

AFS financial assets are nonderivatives that are either designated in this category or not classified in any of the other categories. They are included in noncurrent assets unless management intends to dispose of the investment within 12 months from the balance sheet date. Included in this category are equity investments in publicly listed and private companies other than subsidiaries and associates, which are shown as a separate line item in the balance sheet.

Fair values of trading investments are estimated by reference to their quoted market price at the balance sheet date. Unquoted equity securities are carried at cost, net of an impairment in value, since fair value of these AFS securities cannot be reliably determined as these securities are not listed and have no available bid price.

After initial measurement, AFS investments are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS investments are reported as 'Cumulative changes in fair values of AFS investments' caption in the equity section of the balance sheet.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of income. Where the Company holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Any interest earned on holding AFS investments are reported as interest income using the effective interest rate. Any dividends earned on holding AFS investments are recognized in the statement of income when the right of payment has been established. Any losses arising from impairment of such investments are recognized in the statement of income.

Interest-bearing Loans and Borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. The fair value of the interest bearing long term debt is based on the discounted value of future cash flows using the applicable rates for similar types of loans. For floating rate long term debt which is repriced monthly, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For floating rate long term debt, which is repriced semi-annually, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate for the period up to the next repricing date.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statement of income when the liabilities are derecognized as well as through the amortization process.

For the current year, the Company has no outstanding loans and borrowings.

Other Financial Liabilities

Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income. This accounting policy applies primarily to the Company's borrowings, accounts payable and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Impairment of Financial Assets

Assets carried at Amortized Cost

The Company assesses at each balance sheet date whether a financial or group of financial assets is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g., receivables) has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the statement of income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial asset with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

With respect to receivables, the Company maintains a provision for impairment of receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this provision is evaluated by management on the basis of factors that affect the collectibility of the accounts. A review of the age and status of receivables, designed to identify accounts to be provided with allowance, is performed regularly.

AFS Investments

For AFS investments, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statements of income – is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded in the statement of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Derecognition of Financial Instruments

Financial Asset

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

1. the rights to receive cash flows from the asset have expired;
2. the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
3. the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset.

Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting

Financial assets and liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Inventories

Materials and supplies are stated at the lower of cost or net realizable value. Cost is determined using the moving average method. Net realizable value is the replacement cost. In determining net realizable value, the Company considers any adjustment necessary for obsolescence.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depletion, depreciation and amortization and impairment in value, if any.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the recognition criteria are met. Expenditures incurred after the property, plant and equipment have been put into operations, such as repairs and maintenance, are normally charged to income in the period when the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment. Major maintenance and major overhaul costs that are capitalized as part of property, and equipment are depreciated on a straight-line basis over the shorter of their estimated useful lives, typically the period until the next major maintenance or inspection.

Mine exploration and development costs of mineral properties are capitalized as mine and mining property and are included in property, plant and equipment account.

Depreciation and amortization are calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful life.

Type of asset	Estimated useful life in years
Machinery and equipment	5-20
Building and improvements	20
Furniture, office and other equipment	5
Tailings dam	14

Depletion of mine and mining properties is computed based on ore extraction over the estimated volume of proved and probable ore reserves as estimated by the Company's geologist and certified by an independent geologist.

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of income. Borrowing costs incurred for the construction of any qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are charged to expense.

Mine Exploration Costs

Expenditures for mine exploration work prior to drilling are charged to operations. Expenditures for the acquisition of property rights and expenditures subsequent to drilling and development costs are deferred. When exploration work and project development results are positive, these costs and subsequent mine development costs are capitalized and carried under 'Mine exploration costs' account until the start of commercial operations when such costs are transferred to property, plant and equipment. When the results are determined to be negative or not commercially viable, the accumulated costs are written off.

Impairment of Nonfinancial Assets

Property, Plant and Equipment and Other Noncurrent Assets

Property, plant and equipment and other noncurrent assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the statement of income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depletion, depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

Income Taxes

Current Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the balance sheet date.

Deferred Income Tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from unused NOLCO to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from unused NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Other Income

Other income is recognized when earned.

Interest Income

Interest income is recognized as it accrues using effective interest rate method.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Provisions

Provisions are recognized when (a) the Company has a present obligation (legal and constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are made by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Employee Benefits

Pension Obligations

Pension cost and obligation are computed in accordance with Republic Act No. 7641, Retirement Pay Law, which is similar to that computed under a defined benefit pension plan. A defined benefit plan is a retirement plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on certain factors such as age, years of credited service and salary.

The liability recognized in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with any adjustments for unrecognized gains or losses and past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity which approximates the terms of the related pension liability. The defined benefit obligation is calculated on a regular periodic basis by an independent actuary using the "Projected Unit Credit Cost" method.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are spread to income over the employees' expected average remaining working lives.

Past service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Share-based Plans

The Company grants its officers and employees options to purchase shares of stock of the Company. The aggregate number of shares to be granted under the plan should not exceed 5% of the total number of shares of the Company's outstanding capital stock (see Note 17).

Proceeds from the exercise of stock options issued under the stock option plan from the inception up to the last expiry in 2001 were credited to share capital. The excess of the option price over the plan value is credited to share premium. With the effectivity of PFRS 2 on January 1, 2005, these employee benefits, if any, will be recognized at fair value at grant date but over the vesting period.

Foreign Currency Transactions

Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at the balance sheet date. Foreign exchange differences between rate at transaction date and rate at settlement date or balance sheet date are credited to or charged against current operations.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed based on the weighted average number of shares outstanding and subscribed for each respective periods with retroactive adjustments for stock dividends declared, if any. When shares are dilutive, the unexercised portion of stock options is included as stock equivalents in computing diluted earnings (loss) per share.

Diluted earnings (loss) per share amounts are calculated by dividing the net profit by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares.

Capital Stock

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds. The excess of proceeds from issuance of share over par value of share are credited to share premium.

Where the Company purchases its own shares (treasury shares), the consideration paid including any directly attributable incremental costs is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity.

Dividend Distribution

Dividend distribution to the Company's stockholders is recognized as a liability in the Company's financial statements in the period in which the dividends are declared by the Company's BOD.

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Balance Sheet Date

Post year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The Company has only one business and geographical segment.

3. **Cash and Cash Equivalents**

	2006	2005
Cash on hand and in bank	₱8,350,302	₱463,092
Cash equivalents	110,000,000	-
	₱118,350,302	₱463,092

Cash in bank earns interest at the respective bank deposit rates.

Cash equivalents pertain to time deposits with a local bank having an average maturity of 30 days earning 3.0625% annual interest.

4. **Receivables**

	2006	2005
Nontrade	₱6,477,342	₱2,443,879
Less allowance for impairment losses	455,534	455,534
	₱6,021,808	₱1,988,345

5. **Inventories**

	2006	2005
At net realizable value:		
Mill materials, hardware and other supplies – net	₱22,766,658	₱26,292,658
At cost:		
Machinery and automotive parts	17,407,351	18,056,171
Fuel, oil and lubricants	200,346	200,346
	17,607,697	18,256,517
	₱40,374,355	₱44,549,175

The allowance for inventory losses on mill materials, hardware, and other supplies amounted to ₱28,847,718 and ₱25,477,884 as of December 31, 2006 and 2005, respectively.

6. Prepayments and Other Current Assets

	2006	2005
Input value added taxes (VAT)	₱6,636,453	₱6,385,155
Prepaid income tax	2,618,898	2,618,898
Miscellaneous deposits (see Note 19)	31,843,400	3,791,999
	₱41,098,751	₱12,796,052

Miscellaneous deposits include the deposit for the drilling service contract entered into by the Company in 2006 as part of its preparation for the exploration and drilling activities.

7. Property, Plant and Equipment

	2006					
	Mine and Mining Properties	Machinery and Equipment	Building and Improvements	Furniture, Office and Other Equipment	Land	Total (As restated; Note 21)
Cost:						
Balances at beginning of year	₱2,362,611,759	₱767,550,087	₱98,989,074	₱68,598,074	₱7,270,713	₱3,305,019,707
Additions	7,615,867	600,000	-	213,925	-	8,429,792
Balances at end of year	2,370,227,626	768,150,087	98,989,074	68,811,999	7,270,713	3,313,449,499
Accumulated depreciation, depletion and amortization:						
Balances at beginning of year	1,043,814,398	569,866,577	48,506,125	68,508,007	-	1,730,695,107
Depletion, depreciation and amortization during the year	21,509,924	16,510,027	5,100,036	18,701	-	43,138,688
Balances at end of year	1,065,324,322	586,376,604	53,606,161	68,526,708	-	1,773,833,795
Allowance for impairment losses:						
Balances at beginning of year	-	40,926,804	3,091,325	64,425	-	44,082,554
Additions	-	38,007,980	5,323,156	-	-	43,331,136
Reversal	-	(2,547,256)	-	-	-	(2,547,256)
Balances at end of year	-	76,387,528	8,414,481	64,425	-	84,866,434
Net book values	₱1,304,903,304	₱105,385,955	₱36,968,432	₱220,866	₱7,270,713	₱1,454,749,270

2005
(As restated, see Note 21)

	Mine and Mining Properties and Equipment	Machinery and Equipment	Building and Improvements	Furniture Office and Other Equipment	Land	Total
Cost:						
Balances at beginning of Year	₱2,362,611,759	₱767,550,087	₱98,989,074	₱68,563,074	₱7,270,713	₱3,304,984,707
Additions	–	–	–	35,000	–	35,000
Balances at end of year	2,362,611,759	767,550,087	98,989,074	68,598,074	7,270,713	3,305,019,707
Accumulated depreciation, depletion and amortization:						
Balances at beginning of year	1,022,304,474	557,901,725	42,434,746	67,639,500	–	1,690,280,445
Depletion, depreciation and amortization	21,509,924	11,964,852	6,071,379	868,507	–	40,414,662
Balances at end of year	1,043,814,398	569,866,577	48,506,125	68,508,007	–	1,730,695,107
Allowance for impairment						
Losses	–	40,926,804	3,091,325	64,427	–	44,082,556
Net book values	₱1,318,797,361	₱156,756,706	₱47,391,624	₱25,640	₱7,270,713	₱1,530,242,044

Total depletion, depreciation and amortization of property, plant and equipment charged to operations including amortization of tailings dam (which is included as part of mine and mining properties), amounted to ₱47,396,582, ₱59,294,978 and ₱82,940,371 in 2006, 2005 and 2004, respectively.

In 2006 and 2005, the Company recognized impairment losses amounting to ₱43,331,136 and ₱45,046,615, respectively, representing the net book value of assets which were identified as damaged and obsolete. Provision for impairment losses recognized in 2005 amounting to ₱44,082,556 and ₱964,059 were presented under 'Property, plant and equipment' and 'Other noncurrent assets', respectively.

8. Other Noncurrent Assets

	2006	2005
Environmental fund and others (Note 19)	₱6,641,102	₱6,726,573
Idle assets, net of accumulated depreciation of ₱33,377,489 in 2006 and ₱29,119,594 in 2005	–	10,934,577
	₱6,641,102	₱17,661,150

Annual depreciation of idle assets charged to operations in 2006, 2005 and 2004 amounted to ₱4,257,894. Provision for impairment losses amounting to ₱6,676,682 was recognized in 2006 for the remaining net book value of idle assets.

On November 13, 1998, the Company entered into a separate Memorandum of Agreement with the Office of Municipal Mayor and Sangguniang Bayan of Placer, Surigao del Norte, DENR and Mines and Geosciences Bureau. Under the agreement, the Company is mandated to establish and maintain a Monitoring Trust Fund and a Mine Rehabilitation Fund (MRF) amounting to ₱5 million. The funds are to be used for physical and social rehabilitation, reforestation and restoration of areas and communities affected by mining activities, for pollution control, slope stabilization and integrated community development. The rehabilitation fund to be maintained by the Company in a mutually acceptable bank is subject to annual review of the MRF committee.

9. Accounts Payable and Accrued Expenses

	2006	2005
Accounts payable – trade	₱205,792,235	₱311,412,992
Accounts payable to affiliated companies (Note 12)	35,765,706	215,818,474
Royalty payable	5,775,275	5,775,275
Accrued payroll	4,002,230	5,752,402
Other liabilities	27,257,976	27,937,993
	₱278,593,422	₱566,697,136

10. Borrowings

In 2002, the Company had loans payable to Equitable PCI Bank (EPCIB), Metropolitan Bank and Trust Company (MBTC) and International Exchange Bank (IEB) of ₱115,938,429, ₱103,282,946 and ₱35,381,177, respectively. During 2004, the Company made payments to the creditor banks reducing the total loans payable to ₱193,439, 896.

The loans payable account represents what were originally foreign currency-denominated loans from EPCIB, MBTC and IEB for the importation of various mining equipment. Importations were made through existing credit lines maintained with the local banks. The loans were restructured and were converted into peso loans fixed at certain amounts at various dates in 2002. These loans bear annual interest rates ranging from 10% to 15.25% in 2005.

The loan agreements also provide certain restrictions such as maintenance of a ratio of current assets to current liabilities of at least 0.50:1 and a debt to equity ratio of not more than 1:1, among others.

A portion of the Company's buildings, machinery and equipment, heavy equipment, parcels of land and materials and supplies with a carrying value of ₱142,767,450 as of December 31, 2005 as well as authority to sell mining concessions, were covered by the collateral security agreement with certain banks.

The Company did not meet its maturing debt obligations and the financial ratios required by the loan agreements. In the absence of a waiver from the creditor banks, long-term portions of the loans were classified as current liabilities as of December 31, 2005.

During August 24, 2005, in accordance with the Special Purpose Vehicle Act of 2002, otherwise known as Republic Act No. 9182, EPCIB assigned to Cameron Granville Asset Management (SPV-AMC), Inc. ("Cameron") all its rights, titles and interest in the receivable from the Company in the amount of ₱101,796,828. Cameron subsequently further assigned the receivable to Asia Surplus Limited ("Asia"). In 2005, MBTC initiated a legal action against the Company to collect the principal amount of ₱72,184,588 plus interest. MBTC subsequently filed a Notice of Dismissal of the case which the Court granted.

In 2006, the full amount of the assigned borrowings was settled using a portion of the proceeds from the Company's preemptive stock rights offering (see Note 16).

11. Retirement Benefit Plan

The Company has an unfunded defined retirement benefit plan covering substantially all regular employees. Benefits are dependent on the years of service and the respective employee's compensation. The defined unfunded retirement benefit plan obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement in 2006, 2005 and 2004.

The amounts of retirement benefit expense recognized in the statements of income under cost and expenses are determined as follows:

	2006	2005	2004
Current service costs	₱200,860	₱177,009	₱200,198
Interest costs	307,097	286,789	264,522
Actuarial gains recognized	(27,557)	(31,773)	-
	₱480,400	₱432,025	₱464,720

The amounts of retirement benefit obligations recognized in the balance sheets are determined as follows:

	2006	2005
Present value of defined benefit liability	₱4,038,932	₱3,070,969
Actuarial gains not recognized	122,656	610,219
	₱4,161,588	₱3,681,188

Changes in the present value of the unfunded retirement benefit obligation are determined as follows:

	2006	2005
Balances at beginning of year	₱3,070,969	₱2,607,171
Interest cost	307,097	286,789
Current service cost	200,860	177,009
Actuarial loss	460,006	-
Balances at end of year	₱4,038,932	₱3,070,969

Movements in the unfunded retirement benefit obligation recognized in the balance sheets are as follows:

	2006	2005
Balances at beginning of year	₱3,681,188	₱3,249,163
Expense recognized for the year	480,400	432,025
Balances at end of year	₱4,161,588	₱3,681,188

The principal assumptions used in determining retirement benefit plan obligations are as follows:

	2006	2005
Discount rate	10.00%	11.00%
Salary increase rate	8.00%	8.00%
Expected remaining working lives of employees	11	12

Amounts for the current and previous two years are as follows:

	2006	2005	2004
Defined benefit obligation	₱4,038,932	₱3,070,969	₱2,607,171
Experience adjustments on plan liabilities	14,801	-	-

12. Related Party Transactions

In the normal course of business, the Company has the following significant transactions with its related parties:

- a. Cash advances received from and expenses paid on behalf of the Company by LCMC. For these advances, total finance charges amounted to ₱24,233,053, ₱20,750,321 and ₱24,987,902 in 2006, 2005 and 2004, respectively. Interest rates for these advances range from 7.50% to 16.50% in 2006; 7.86% to 13.00% in 2005; and 7.00% to 15.79% in 2004.
- b. Various drilling and hauling services rendered by its affiliates to the Company.

The balance sheets include the following amounts resulting from the above transactions with related parties:

	2006	2005
Payables to:		
LCMC	₱315,966,684	₱504,910,669
Others	35,765,706	215,818,474

Payables to LCMC is presented in the balance sheets as nontrade payable under noncurrent liabilities and payables to other related parties are presented under accounts payable and accrued expenses.

- c. Total compensation of the Company's key management personnel for the years ended December 31, 2006, 2005 and 2004 amounted to ₱42,000, ₱84,000 and ₱123,450, respectively. Interest rates range from 7.5% to 16.5%.

13. Administration and Overhead

	2006	2005 (As restated; Note 21)	2004 (As restated; Note 21)
Provision for impairment losses on property, plant and equipment (Notes 7 and 8)	₱50,007,818	₱45,046,615	₱–
Depletion, depreciation and amortization (Notes 7 and 8)	25,886,659	37,785,055	61,430,448
Amortization of tailings dam (Note 7)	21,509,923	21,509,923	21,509,923
Salaries, allowances and other benefits	4,343,339	3,340,804	3,883,822
Provision for impairment losses on inventories	3,369,834	9,131,927	–
Supplies	530,330	283,420	395,991
Retirement benefit cost (Note 11)	480,400	432,025	464,720
Taxes and licenses	308,299	464,381	377,725
Transportation and travel	196,582	200,760	333,249
Utilities	169,892	424,725	2,011,294
Outside services	120,000	3,394,777	3,233,551
Representation and entertainment	35,448	283,711	425,420
Repairs and maintenance	–	2,457,239	211,763
Other charges	1,686,069	9,023,328	7,853,840
	₱108,644,593	₱133,778,690	₱102,131,746

14. Finance Costs - net

	2006	2005	2004
Costs :			
Finance charges (Note 12)	₱24,233,053	₱20,750,321	₱24,987,902
Foreign exchange loss	8,868	7,094	–
Others	–	4,913	–
	24,241,921	20,762,328	24,987,902
Less: Income			
Interest income	1,337,748	6,919	11,394
Foreign exchange gain	–	–	85,977
Others	700	–	–
	1,338,448	6,919	97,371
	₱22,903,473	₱20,755,409	₱24,890,531

15. Income Taxes

The Company has no provision for income tax in 2006, 2005 and 2004 because of its gross and net tax loss positions.

The components of the Company's net deferred income tax liabilities as of December 31 are as follows:

	2006	2005
Deferred income tax assets:		
Allowance for:		
Impairment losses on property, plant and equipment	P33,269,051	P15,766,315
Losses on inventories	10,096,701	8,917,259
Impairment losses on receivables	159,438	159,438
Probable losses	150,500	150,500
Retirement benefit obligation	1,456,556	1,288,416
	45,132,246	26,281,928
Deferred income tax liability:		
Excess of allowable depletion over depletion per books	151,509,780	151,509,780
	P106,377,534	P125,227,852

Deferred income tax liability is provided on taxable temporary differences arising on the difference between allowed depletion under Presidential Decree 1353 and normal depletion.

As of December 31, 2006 and 2005, the Company has NOLCO that can be claimed either as deduction from future taxable income as follows:

Year incurred	Year of Expiration	NOLCO	
		Amount	Tax Effect
2004	2007	P133,563,086	P46,747,080
2005	2008	106,554,996	37,294,249
2006	2009	78,541,014	23,562,304
		P318,659,096	P107,603,633

The following are the movements of the Company's NOLCO for the years ended December 31:

	2006	2005
Balances at beginning of year	P463,808,635	P636,745,746
Additions	78,541,014	106,554,996
Expirations	(223,690,553)	(279,492,107)
Balances at end of year	P318,659,096	P463,808,635

No deferred income tax asset was recognized for the above NOLCO as it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Republic Act No. 9337 (RA) was enacted into law effective November 1, 2005 amending various provisions in the existing 1997 National Internal Revenue Code of the Philippines (1997 NIRC). Among the reforms introduced by the said RA are as follows:

- Increase in the corporate income tax rate from 32% to 35%, with a reduction thereof to 30% beginning January 1, 2009;
- Expanded the scope of transactions subject to VAT which includes the sale of generated power;
- Grant of authority to the Philippine President to increase the 10% value added tax (VAT) rate to 12%, effective January 1, 2006, subject to compliance with certain economic conditions;
- Revised invoicing and reporting requirements for VAT; and
- Provided thresholds and limitation on the amount of VAT credits that can be claimed.

On January 31, 2006, the BIR issued Revenue Memorandum Circular No. 7-2006 increasing the VAT rate from 10% to 12% effective February 1, 2006.

Due to the enactment of the RA, the effective statutory income tax rate as of December 31, 2005 is at 32.5%. The deferred income tax assets and liabilities were measured using the appropriate corporate income tax rate on the year it is expected to be reversed or settled.

RA No. 9361 was enacted into law effective December 13, 2006, amending Section 110B of the 1997 NIRC, and abolishing the limitation on the amount of VAT credits that can be claimed.

16. Capital Stock

On November 30, 2006, the SEC approved the increase in the authorized capital stock to 180 billion shares at par value of ₱0.01 per share divided into 108 billion Class "A" shares and 72 billion Class "B" shares.

Only Philippine nationals are qualified to acquire, own or hold Class "A" common shares of stock of the Company. The total number of Class "B" common shares of stock subscribed, issued or outstanding at any given time shall in no case exceed two-thirds (2/3) of the number of Class "A" common shares of stock or 40% of the aggregate number of Class "A" and Class "B" common shares of stock then subscribed, issued or outstanding.

	2006		2005	
	No. of shares	Amount	No. of shares	Amount
Issued and outstanding				
Class "A"	107,216,894,805	₱1,072,168,948	71,608,561,984	₱716,085,620
Class "B"	70,882,280,784	708,822,808	47,707,456,936	477,074,569
	178,099,175,589	1,780,991,756	119,316,018,920	1,193,160,189
Subscribed				
Class "A"	216,241,198	₱2,162,412	13,528,685	₱135,287
Class "B"	688,904,418	6,889,044	6,666,532	66,665
	905,145,616	9,051,456	20,195,217	201,952
Total Shares Issued and				
Subscribed	179,004,321,205	1,790,043,212	119,336,214,137	1,193,362,141
Less: Subscriptions				
Receivable		104,710		130,827
		₱1,789,938,502		₱1,193,231,314

In September 2006, the Company offered to its shareholders as of record date of August 30, 2006 the right to subscribe to one (1) share for every two (2) shares held covering 59,668,107,068 common shares consisting of 35,811,045,334 Class "A" shares and 23,857,061,734 Class "B" shares.

The offer period was from September 25 to October 4, 2006. As of October 4, 2006, all shares of stock offered were fully subscribed and/or issued.

17. Share-based Plan

Under the Company's Revised Stock Option Plan ("Plan"), as amended on September 25, 1995, employees selected by the Stock Option Committee to be important for the success or continued growth of the Company based on their past performance and/or potential, are eligible for the grant. The grantees are given the option to purchase collectively not more than 5% of the total number of shares of the Company's outstanding stock at a price not less than the par value and representing 80% of the average closing price of the stock for the 10 trading days immediately following the SEC's approval of the grant, as determined from the quotations in the PSE. The Plan was further amended by the Company's BOD on August 25, 1997 to enable the BOD to reduce the option price in the event that the market price of the stock should fall to such a level as would dissuade the optionees from exercising their respective option provided that: (1) the reduced price shall not be lower than 80% of the closing price of the stock on the reference date; (2) any reduction in option price should be applied prospectively; and, (3) the option price could not be reduced by more than two times during the effectivity of any grant. The stock options are valid for a period of five years and are exercisable upon approval by the SEC.

There were no stock options granted or stock options activities after the last award granted by the Company, the Seventh Stock Option Award, expired on January 31, 2001.

18. Loss Per Share

	2006	2005	2004
Net loss as shown in the statement of income	₱112,697,748	₱147,417,534	₱126,873,567
Weighted average common shares	134,011,808,087	119,336,214,137	119,336,214,137
Basic and diluted loss per share	₱0.00084	₱0.00124	₱0.00106

The basic and diluted loss per share are the same for the years presented as there are no dilutive stock options outstanding.

19. Commitments and Contingent Liabilities

- a. The Company entered into an agreement with Diamond Drilling Corporation of the Philippines during the last quarter of 2006. Such agreement is with regard to exploration drilling programme involving the drilling of about 10 holes to probe the Kinto Limbo Project and possible extension of Entina Ore body. Initial activities, such as accessing proposed drill pads were undertaken in 2006, however, actual drilling exploration begun in January 2007.

- b. Company is either a defendant or co-defendant in certain civil and administrative cases which are now pending before the courts and other governmental bodies. In the opinion of management and the Company's legal counsel, any adverse decision on these cases would not materially affect the Company's financial position and results of operations as of and for the year ended December 31, 2006.

20. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash and cash equivalents and interest-bearing borrowings. The main purpose of the Company's financial instruments is to fund operations. The Company has other financial instruments such as receivables and accounts payable and accrued expenses that arise directly from operations. The main risks arising from the use of financial instruments are foreign exchange risk, business risk, cash flow and fair value interest rate risk, credit risk and liquidity risk. The Company's Board of Directors reviews and approves the policies for managing each of these risks and they are summarized below.

Foreign exchange risk

The Company uses the Philippine peso as its functional currency and is therefore exposed to foreign exchange movements, primarily in US dollar currencies. The Company follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-Philippine peso currencies. The Company's foreign currency denominated monetary asset pertains solely to cash in bank amounted to US\$2,220 (₱108,847) in 2006 and US\$2,208 (₱117,227) in 2005.

Business Risk

Since the Company has started to resume its operations, sustainability of exploration and development of mineral resources remains to be a consideration. Despite technical difficulties in estimating mineral resources, current trend in market for these eventual resulting commodities is positive, thus, reducing risks of development and production.

Cash Flow and Fair Value Interest Rate Risk

The Company's income and operating cash flows are affected largely by operation and by changes in market interest rates. The rates have increased gradually for the past years. Interests on borrowings range from 7.50% to 16.50% in 2006; 7.86% to 13.00% in 2005; and 7.00% to 15.79% in 2004 (see Note 12). The Company relies on budgeting and forecasting techniques to address cash flow concerns.

Credit Risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all debtors who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to doubtful accounts is not significant. The Company's maximum exposure to credit risk is equal to carrying amount of its receivables and other financial assets.

Liquidity Risk

The Company manages liquidity risk by maintaining a balance between continuity of funding and flexibility. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows.

Fair Value of Financial Assets and Liabilities

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash and Cash equivalents

The carrying amount of cash and cash equivalents approximates their fair value due to the short-term maturity of these financial instruments.

AFS Investments

Fair values of AFS investments are estimated by reference to their quoted market price at the balance sheet date. Unquoted equity securities are carried at cost, net of impairment in value, since fair value of these AFS securities cannot be reliably determined as these securities are not listed and have no available bid price.

Receivables, accounts payable and accrued expenses and nontrade payable

Similarly, the historical cost of other receivables, accounts payable and accrued expenses and payable to stockholders, which are all subject to normal trade credit terms, approximate their fair values.

21. Other Matters

As part of its preparation for the exploration drilling activities in 2007, the Company has initiated a review and evaluation of the mine site's fixed assets. Based on the review, the Company has determined that portions of its mine and mining properties were impaired and beyond repair. Management believes that these fixed assets should have been written-off. As a result of, prior period financial statements were restated. The restatement resulted to an increase in deficit as of January 1, 2004 by ₱82,402,244. Property, plant and equipment account was also reduced by the same amount. Furthermore, net loss in, 2005 and 2004 is reduced by ₱6,999,546 relating to the reversal of the recognized depreciation expense for the written-off property, plant and equipment.

CORPORATE DIRECTORY



Manila Mining Corporation

DIRECTORS	PLACER STAFF		MAKATI - BASED STAFF
<p>FELIPE U. YAP EDUARDO A. BANGAYAN JOSE G. CERVANTES RENE F. CHANYUNGCO ETHELWOLDO E. FERNANDEZ PATRICIO L. LIM AUGUSTO C. VILLALUNA BRYAN U. YAP PATRICK K. YAP</p>	<p>ISAGANI C. SULAPAS Finance Group Manager</p> <p>MELBA P. ESPANTO Mine Treasury/Cashier</p> <p>TESSIE T. SARDOVIA Acting Chief Accountant</p>	<p>AGRECIO S. AMBRAY OIC Security Dept</p> <p>VERNIE S. REYES Environment Supt. & PCO</p> <p>RANIL B. ORABA Tailings Dam Supt.</p>	<p>JOSEPHINE DC. SUBIDO Chief Accountant</p> <p>EDMUND C. MEER SAMUEL G. ZUÑIGA Accountants</p> <p>TYRONE R. CHANCO Purchasing Officer</p>
<p>CORPORATE OFFICERS</p>	<p>ALEXANDER M. DACYON Admin. Group Manager</p>	<p>CESAR B. BUTRON Mine Production Supt.</p>	<p>TERESITA D. LAGMAN JONATHAN P. ARANETA Purchasing Assistants</p>
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<p>PATRICK K. YAP Senior Vice President</p>	<p>JOSE S. GARCIA, JR. Chief Geologist</p>	<p>SERAPIO B. PAGAR, JR. Mill Superintendent</p>	<p>TRANSFER AGENT Bank of the Phil. Islands</p>
<p>BRYAN U. YAP Vice President</p>	<p>FEDERICO B. LAGAZO Inventory Management Supt.</p>	<p>JOSE A. RICAÑA Grinding Plant Supt.</p>	<p>GENERAL COUNSEL Sycip, Salazar, Hernandez & Gatmaitan Law Offices</p>
<p>PABLO T. AYSON Vice President</p>	<p>ROBERTO B. ZAGADO Medical Superintendent</p>	<p>ROGELIO A. VILLANUEVA Sr. Geologist</p>	<p>BANKS Bank of the Phil. Islands Equitable-PCI Banking Corp. Phil. Bank of Communication</p>
<p>MA. LOURDES B. TUASON Asst. Treasurer</p>	<p>REYNALDO A. ALGARME Safety & Loss Control Supt.</p>	<p>FAUSTINO C. ORTUYO, JR. Acting PED Supt.</p>	
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